

Valley Gas, Inc.

401 First Street, Irvington, Kentucky 40146

270 - 547 - 2455

February 4, 2011

Jeff R. Derouen
Executive Director
KY Public Service Commission
PO Box 615
Frankfort, KY 40602

RECEIVED

FEB - 7 2011

PUBLIC SERVICE
COMMISSION

2011-00010

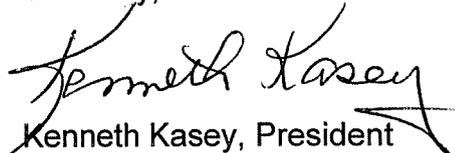
RE: Application for an Adjustment in Rates Pursuant to
the Alternative Rate Filing Procedure for Small Utilities

This is an application to request Commission approval for an increase in Valley Gas, Inc.'s base gas rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. Attached is a fully completed "ARF Application."

In accordance with 807 KAR 5:076, Section 4, Valley Gas will publish its customer notice once a week for three (3) consecutive weeks in a newspaper of general circulation in its service area, with the first notification being published by the filing date of the application. A copy of the published customer notification and an affidavit from the Company's Owner verifying that the notice was published in the manner required is enclosed.

A copy of this application and related filings has been sent to the Office of the Attorney General, State Capitol Building, Suite 118, Frankfort, KY 40601.

Sincerely,


Kenneth Kasey, President
Valley Gas, Inc.

Enclosure

Valley Gas, Inc.

401 First Street, Irvington, Kentucky 40146

270 - 547 - 2455

February 4, 2011

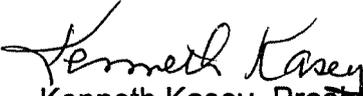
Hon. Jack Conway
Office of Attorney General
The Capitol, Suite 118
Frankfort, KY 40601

RE: Application for an Adjustment in Rates Pursuant to
the Alternative Rate Filing Procedure for Small Utilities

This filing shall serve notice that Valley Gas, Inc. has filed an application with the Public Service Commission to increase its base gas rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. Copies of the Annual Report for the past year and the previous two years are attached to the "ARF Application."

The Company has published customer notice of the proposed rate changes and the estimated amount of increase per customer class to each customer. You will find a copy of the customer notification enclosed.

Sincerely,


Kenneth Kasey, President
Valley Gas, Inc.

Enclosure

NOTICE

Notice is hereby given that Valley Gas, Inc. seeks approval by the Public Service Commission, Frankfort, Kentucky, for an adjustment of the base gas rates in the total amount of \$94,233 on an annual basis. The percentage of increase will approximate 66.4 percent .

The estimated amount of increase per customer class/meter size is:

| <u>Customer Class</u> | <u>Existing Rates</u> | <u>Proposed Rates</u> | <u>Proposed Increase</u> | |
|-----------------------|-----------------------|-----------------------|--------------------------|----------|
| | | | <u>Amount</u> | <u>%</u> |
| <u>Base Rates</u> | | | | |
| Customer Charge | \$ 8.50 | \$ 12.00 | \$ 3.50 | 41.18% |
| per Mcf | \$ 2.3819 | \$ 4.2699 | \$ 1.888 | 79.26% |
| <u>Gas Cost</u> | | | | |
| Per Mcf | \$ 4.3928 | \$ 4.3928 | \$ 0.00 | 00.00% |

IMPACT ON AVERAGE CUSTOMER BILL

| | <u>Existing</u> | <u>Proposed</u> | <u>% Increase</u> |
|----------------------|-----------------|-----------------|-------------------|
| 6.996 Mcf Avg. Usage | \$25.16 | \$41.87 | 66.42% |

The base gas rates contained in this notice are the rates proposed by the Valley Gas; however, the Public Service Commission may order sewer rates to be charged that differ from the proposed sewer rates contained in this notice.

Notice is further given that any corporation, association, or person with a substantial interest in the matter may, by written request within thirty (30) days after the publication of this notice, request to intervene in the matter before the Public Service Commission. Intervention may be granted beyond the thirty (30) day period for good cause shown. The request should be submitted to the Public Service Commission at its address shown below. Any person who has been granted intervention by the Commission may obtain copies, free of charge, of the application and testimony by contacting Valley Gas at the address below. Any person may examine the rate application and any other filings made by Valley Gas at its offices or at the Public Service Commission at the addresses below.

Valley Gas, Inc.
401 First Street
Irrington, KY 40146
Telephone: 270-547-2455

Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601
Telephone: 502-564-3940

APPLICATION FOR RATE ADJUSTMENT
BEFORE THE PUBLIC SERVICE COMMISSION

For Small Utilities
Pursuant to 807 KAR 5:076
(Alternative Rate Filing)

Valley Gas, Inc.

Name of Utility

P.O. Box 55; 401 First Street

Irvington, KY 40146

Business Mailing Address

Telephone Number **270 / 547 – 2455**

Area Code

Number

I. Basic Information

NAME, TITLE, ADDRESS and Telephone number of the person to whom correspondence or communications concerning this application should be directed:

Name: **Kerry R. Kasey**

Address: **P.O. Box 55; 401 First Street**

Irvington, KY 40146

Telephone Number: **270 – 547 – 2455**

- | | | | |
|----|---|---|----|
| 1) | Do you have 500 customers or fewer? | <input checked="" type="checkbox"/> Yes | No |
| 2) | Do you have \$300,000 in Gross Annual Revenue or less? | <input checked="" type="checkbox"/> Yes | No |
| 3) | Has the Utility filed an annual report with this Commission for the past year and the two previous years? | <input checked="" type="checkbox"/> Yes | No |
| 4) | Are the utility's records kept separate from any other commonly-owned enterprise? | <input checked="" type="checkbox"/> Yes | No |

NOTICE: To be eligible for consideration of a rate adjustment under this regulation, you must have answered yes to either question 1 or 2 and yes to both questions 3 and 4 above. If you answer no to questions 3 or 4, you must obtain written approval from the Commission prior to filing this Application. If these requirements are not met, you must file under the Commission's procedural rules, 807 KAR 5:001.

EXHIBIT A
Determination of Revenue
Requirement

| | |
|--|------------|
| Operating Expenses (Net of Purchased Gas Costs & Income Taxes) | \$ 211,454 |
| Divide by: Operating Ratio | + 88% |
| Revenue to Cover Operating Ratio | \$ 240,289 |
| Add: Interest on Long-Term Debt | 1,488 |
| Income Taxes on Net Operating Income | + 6,874 |
| Total Revenue Requirement - Base Rates and Customer Charges | \$ 246,651 |
| Less: Other Operating Revenues | - 12,498 |
| Total Revenue Requirement Base Rates | \$ 236,153 |
| Less: Operating Revenues (Less: Gas & Transportation Costs) | - 141,920 |
| Revenue Increase | \$ 94,233 |

Determination of Income Tax Expense

| | |
|--|--------------|
| Revenue to Cover Operating Ratio | \$ 240,289 |
| Less: Operating Expenses | - 211,454 |
| Net Operating Income | \$ 28,835 |
| Multiplied by: Gross-up Factor | x 1.23839009 |
| Net Operating Income Before Income Taxes | \$ 35,709 |
| Less: Net Operating Income | - 28,835 |
| Income Tax Expense | \$ 6,874 |

Determination of Gross-up Factor

| | Rates | Factors |
|----------------------------------|----------|------------|
| Operating Revenue | | 100.00000% |
| Less: | | |
| General Liability Insurance @ | 0.00000% | 0.00000% |
| PSC Fee | 0.00000% | 0.00000% |
| Taxable Income | | 100.00000% |
| Less: State Income Taxes @ | 5.00% | 5.00000% |
| Taxable Income - Federal | | 95.00000% |
| Less: Federal Income Taxes @ | 15.00% | 14.25000% |
| Gross-Up Factor - Division | | 80.75000% |
| Gross-Up Factor - Multiplication | | 1.23839009 |
| Composite Income Tax Rate | | 19.25000% |

V. General Information/Customer Notice

1) Filing Requirements:

a. If the applicant is a corporation, a certified copy of its articles of incorporation must be attached to this application. If the articles and any amendments thereto have already been filed with the Commission in a prior proceeding, it will be sufficient to state that fact in the application and refer to the style and case number of the prior proceeding.

b. An original and 10 copies of the completed application should be sent to:

Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Post Office Box 615
Frankfort, Kentucky 40602

Telephone: 502 / 564 – 3940

c. One Copy of the completed application should also be sent at the same time to:

Public Service Litigation Branch
Office of the Attorney General
Post Office Box 2000
Frankfort, Kentucky 40602-2000

2) A copy of the customer notice must be filed with this application. Proper notice must comply with Section 4 of this regulation.

3) Copies of this form and the regulation may be obtained from the Commission's Office of Executive Director; or by calling 502 / 564 – 3940.

4) I have read and completed this application, and to the best of my knowledge all the information contained in this application is true and correct.

Signed



Officer of the Company

Title

President

Date

January 24, 2011

Revenue from Present/Proposed Rates
 Test Period from 01-01-XX to 12-31-XX

USAGE TABLE
 Usage by Rate Increment

Class: Residential

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|--------------------------|-------|-------------|-------------|------------|-------------|-------------|-------------|------------|
| | Bills | Gallons/Mcf | First 2,000 | Next 3,000 | Next 10,000 | Next 25,000 | Over 40,000 | Total |
| First 2,000 Minimum Bill | 432 | 518,400 | 518,400 | 1,388,000 | | | | 518,400 |
| Next 3,000 Gallons | 1,735 | 4,858,000 | 3,470,000 | 1,388,000 | | | | 4,858,000 |
| Next 10,000 Gallons | 1,830 | 16,268,700 | 3,660,000 | 5,490,000 | 7,118,700 | | | 16,268,700 |
| Next 25,000 Gallons | 650 | 15,275,000 | 1,300,000 | 1,950,000 | 6,500,000 | 5,525,000 | | 15,275,000 |
| Over 40,000 Gallons | 153 | 9,975,600 | 306,000 | 459,000 | 1,530,000 | 3,825,000 | 3,855,600 | 9,975,600 |
| Totals | 4,800 | 46,895,700 | 9,254,400 | 9,287,000 | 15,148,700 | 9,350,000 | 3,855,600 | 46,895,700 |

REVENUE TABLE
 Revenue by Rate Increment

| (1) | (2) | (3) | (4) | (5) |
|--------------------------|-------|-------------|------------------------|----------------------------|
| | Bills | Gallons/Mcf | Rates | Revenue |
| First 2,000 Minimum Bill | 4,800 | 9,254,400 | \$ 5.00 Minimum Bill | \$ 24,000.00 |
| Next 3,000 Gallons | | 9,287,000 | \$ 2.50 per 1,000 Gal. | 23,217.50 |
| Next 10,000 Gallons | | 15,148,700 | \$ 2.00 per 1,000 Gal. | 30,297.40 |
| Next 25,000 Gallons | | 9,350,000 | \$ 1.25 per 1,000 Gal. | 11,687.50 |
| Over 40,000 Gallons | | 3,855,600 | \$ 0.75 per 1,000 Gal. | 2,891.70 |
| Totals | 4,800 | 46,895,700 | | \$ 92,094.10 Total Revenue |

Instructions for Completing Revenue Table:

- (1) Complete Columns No. 1, 2, and 3 using information from Usage Tables.
- (2) Complete Column No. 4 using rates either present or proposed.
- (3) Column No. 5 is completed by first multiplying the bills times the minimum charge.
- (4) Then, starting with the second rate increment, multiply Column No. 3 by Column No. 4 and total.

Step3: Next 10,000 gallons rate level
 1,830 Bills
 16,268,700 gallons used
 $1^{\text{st}} 2,000 \text{ minimum} \times 1,830 \text{ bills} = 3,660,000 \text{ gallons} - \text{record in Column 4.}$
 $\text{Next } 3,000 \text{ gallons} \times 1,830 \text{ bills} = 5,490,000 \text{ gallons} - \text{record in Column 5.}$
 $\text{Next } 10,000 \text{ gallons} - \text{remainder of water over } 3,000 = 7,118,700 \text{ gallons} - \text{record in Column 6.}$

Step4: Next 25,000 gallons rate level
 650 Bills
 15,275,000 gallons used
 $1^{\text{st}} 2,000 \text{ minimum} \times 650 \text{ bills} = 1,300,000 \text{ gallons} - \text{record in Column 4.}$
 $\text{Next } 3,000 \text{ gallons} \times 650 \text{ bills} = 1,950,000 \text{ gallons} - \text{record in Column 5.}$
 $\text{Next } 10,000 \text{ gallons} \times 650 \text{ bills} = 6,500,000 \text{ gallons} - \text{record in Column 6.}$
 $\text{Next } 25,000 \text{ gallons} - \text{remainder of water over } 10,000 = 5,525,000 \text{ gallons} - \text{record in Column 7.}$

Step5: Over 40,000 gallons rate level
 153 Bills
 9,975,600 gallons used
 $1^{\text{st}} 2,000 \text{ minimum} \times 153 \text{ bills} = 306,000 \text{ gallons} - \text{record in Column 4.}$
 $\text{Next } 3,000 \text{ gallons} \times 153 \text{ bills} = 459,000 \text{ gallons} - \text{record in Column 5.}$
 $\text{Next } 10,000 \text{ gallons} \times 153 \text{ bills} = 1,530,000 \text{ gallons} - \text{record in Column 6.}$
 $\text{Next } 25,000 \text{ gallons} \times 153 \text{ bills} = 3,825,000 \text{ gallons} - \text{record in Column 7.}$
 $\text{Over } 40,000 \text{ gallons} - \text{remainder of water over } 25,000 = 3,855,600 \text{ gallons} - \text{record in Column 8.}$

Step6: Total each column for transfer to Revenue Table.

b. Revenue Table (Revenue by Rate Increment)

The Revenue Table is used to determine the revenue produced from the Usage Table. Column No. 1 is the incremental rate steps in the rate schedule for which the analysis is being made. Column No. 2 indicates the total number of bills. Column No. 3 is the number of gallons accumulated in each rate increment (Totals from Columns 4, 5, 6, 7, and 8 of the above usage table). Column No. 4 is the rates to be used in determining revenue. Column No. 5 contains the revenue produced.

- 6) If utility is a sewer utility:
- a) Attach a copy of the latest State and Federal Income Tax Returns. **Copies of the Income Tax Returns are attached.**
 - b) How much of the utility plant was recovered through the sale of lots or other contributions _____ \$ or %? (If unknown, state the reason).

- b. Please state the reason or reasons why a rate adjustment is requested. (Attach additional pages if necessary).

The operating expenses have increased since the last rate case. For Richardsville to be able to provide adequate service to its ratepayers the requested increase in the base rates is required.

III. Other Information

a. Please complete the following questions:

- 1) Please describe any events or occurrences, which may have an effect on this rate review that should be brought to the Commission's attention (e.g., excessive line losses, major repairs, planned construction).

The rates are being adjusted to recover the increases in operating expenses that have occurred since Valley Gas's last increase in its base rates.

2) Total number of Customers as of the date of filing: 470

3) Total amount of increased revenue requested: \$ 94,233 Exhibit A

4) Please circle Yes or No:

- a) Does the utility have any outstanding indebtedness? Yes No

If yes, attach a copy of any documents such as promissory notes, bond resolutions, mortgage agreements, etc.

- b) Were all revenues and expenses listed in the Annual Report for 2008 incurred and collected from January 1 to December 31 of that year? Yes No

If no, list total revenues and total expenses incurred prior to or subsequent to this period and attach invoices or other analysis which show how amounts were calculated.

- 5) Attach a copy of the utility's depreciation schedule of utility plant in service. Reconcile any differences between total depreciation shown on the Annual Report for 2008 and the amount shown on this schedule.

A copy of the 2008 depreciation schedule is attached to the Application.

(d) Office Rent:

This adjustment reflects the annual office rent expense of \$6,000.

| | | |
|------------------------------------|----|--------------|
| Pro Forma Monthly Office Rent | \$ | 500 |
| Multiplied by: 12 Months | x | 12 |
| Pro Forma Annual Office Rent | \$ | 6,000 |
| Less: Reported Office Rent Expense | - | 3,225 |
| Pro Forma Adjustment | \$ | <u>2,775</u> |

(e) Taxes Other Than Income Taxes:

This adjustment removes misclassified taxes and allocates the correct payroll taxes to Valley gas.

| Employee Position | Payroll | St. Unemp. | Fed. Unemp | FICA | Totals |
|---------------------------------|------------------|---------------|---------------|-----------------|--------------------|
| Kevin Kasey | \$ 26,400 | \$ 56 | \$ 80 | \$ 2,020 | \$ 2,156 |
| Kerry Kasey | + 26,400 | + 56 | + 80 | + 2,020 | + 2,156 |
| Pro Forma Totals | <u>\$ 52,800</u> | <u>\$ 112</u> | <u>\$ 160</u> | <u>\$ 4,040</u> | <u>\$ 4,312</u> |
| Payroll Taxes - Expensed | | | | | \$ 4,312 |
| Less: Test Period Payroll Taxes | | | | | - 4,630 |
| Pro Forma Adjustment -Payroll | | | | | \$ (318) |
| Remove City Tax | | | | | 13,444 |
| Sales Tax | | | | | 3,838 |
| Utility Tax | | | | | - 14,596 |
| Total Pro forma Adjustment | | | | | <u>\$ (32,196)</u> |

- c. Please list your present and proposed rates for each class (i.e., residential, commercial, etc.) of customer and the percentage of increase proposed for each class: **The below rates are applicable to all customer classes.**

| Customer Class | Existing Rates | Proposed Rates | Proposed Increase | |
|-------------------|----------------|----------------|-------------------|--------|
| | | | Amount | % |
| <u>Base Rates</u> | | | | |
| Customer Charge | \$ 8.50 | \$ 12.00 | \$ 3.50 | 41.18% |
| per Mcf | \$ 2.3819 | \$ 4.2699 | \$ 1.888 | 79.26% |
| <u>Gas Cost</u> | | | | |
| Per Mcf | \$ 4.3928 | \$ 4.3928 | \$ 0.00 | 00.00% |

- b. Please describe each item that you adjusted on page 2 and how you know it will change. (Please attach invoices, letters, contracts or receipts which will help in proving the change in cost).

(a) Normalized Base Rate Revenues - Purchased gas costs are recovered through the purchased gas adjustment; those costs are excluded when determining base rate revenue.

| | | |
|---------------------------------------|----|-----------|
| Tariffed Customer Charge | \$ | 8.50 |
| Multiplied by: No. of Customers | x | 470 |
| Monthly Customer Charge Revenues | \$ | 3,995 |
| Multiplied by: 12 Months | x | 12 |
| Annual Customer Charge Revenues | \$ | 47,940 |
| Base rate | \$ | 2.3819 |
| Multiplied by: Mcf sales | x | 39,456 |
| Volumetric rate revenues | \$ | 93,980 |
| 2008 Normalized base rate revenues | \$ | 141,920 |
| Less: Total Gas Service revenues | - | 518,814 |
| Pro Forma Adjustment | \$ | (376,894) |
| Remove Purchased Gas Cost | | |
| Natural Gas City Gate Purchases | \$ | (382,538) |
| Gas Withdrawn from Storage - Credit | \$ | 81,028 |
| Operation Supervision and Engineering | \$ | 42,758 |

(b) Management Fee / Owner Management Fee:

Kenneth Kasey was one of the original founders of Valley Gas, Inc. in 1962. Mr. Kasey was present when the franchise was authorized and the pipeline was installed in 1962. He has never received a pay check from Valley Gas and a few times in the past few years it has been necessary that Mr. Kasey make an addition to capital in order to be current with obligations. I am sure that the company could be sold on a short notice to some major company. I could take that money and invest it in some good growing company and make a greater return. Presently, Mr. Kasey is responsible for the payment of all bills, preparation of correspondence, oversight of employees, gas purchases, attendance at meeting with various gas companies, and is involved in all of the company decisions. The management fee has been charged to Valley Gas for at least twenty years. The semi-annual charge for management fees, office space rental, utilities, labor, and insurance is \$32,203.

| | | |
|--|----|----------|
| Semi-Annual Management Fee | \$ | 32,203 |
| Multiplied by: 2 | x | 2 |
| Annual Management Fee | \$ | 64,406 |
| Less: Management Fee - No Supporting Documentation | - | 80,000 |
| Management Fee - No Supporting Documentation | \$ | (15,594) |

(c) Employee Pension & Benefits:

This adjustment reflects the allocation of the employee benefits provided to the two identified employees of Valley Gas

| | | |
|--|----|---------|
| Monthly Health and Life Insurance | \$ | 1,683 |
| Multiplied by: 12 Months | x | 12 |
| Annual Employee Health and Life Insurance | \$ | 20,196 |
| Multiplied by: Salary Allocation Rate | x | 44.000% |
| Allocated Emp. Health and Life Insurance Premium | \$ | 8,886 |
| Allocated Annual Salaries to Valley Gas | \$ | 52,800 |
| Total Salaries Paid in 2008 | + | 120,000 |
| Salary Allocation Rate | | 44.000% |

II. Increased Cost Information

(1) The most recent Annual Report will be used as the basic test period data in order to determine the reasonableness of the proposed rates. The Annual Report used as the basis for the 12 months ending December 31, **2008**.

a. If you have reason to believe some of the items of revenue and expense listed in the Annual Report will increase or decrease, please list each item, the expected increase or decrease and the adjusted amount.

| Account Titles | 2008 | Pro Forma Adjustments | Adj. Ref. | Pro Forma Operations |
|---|--------------------|--------------------------|--------------|-------------------------|
| Operating Revenues: | | | | |
| Total Gas Service Revenues | \$ 518,814 | \$ (376,894) | (a) | \$ 141,920 |
| Forfeited Discounts | 6,977 | 0 | | 6,977 |
| Miscellaneous Service Revenues | 5,521 | 0 | | 5,521 |
| Total Gas Operating Revenues | \$ 531,312 | \$ (376,894) | | \$ 154,418 |
| Operating Expenses: | | | | |
| Other Gas Supply Exp: | | | | |
| Natural Gas City Gate Purchases | \$ 382,538 | \$ (382,538) | | \$ 0 |
| Gas Withdrawn from Storage - Credit | (81,028) | 81,028 | | 0 |
| Natural Gas City Gate Purchases | \$ 301,510 | \$ (301,510) | (a) | \$ 0 |
| Distribution Expenses: | | | | |
| Operation Supervision and Eng. | \$ (42,758) | \$ 42,758 | | \$ 0 |
| Mains & Service Exp. | 32,229 | 0 | (a) | 32,229 |
| Total Distribution Expenses | \$ (10,529) | \$ 42,758 | | \$ 32,229 |
| Customer Records and Collection: | | | | |
| Uncollectible Accounts | \$ 8,048 | \$ 0 | | \$ 8,048 |
| Administrative & General Exp: | | | | |
| Administrative & General Salaries | \$ 28,900 | \$ 0 | | \$ 28,900 |
| Office Supply & Exp. | 19,933 | 0 | | 19,933 |
| Outside Services Employed | 87,093 | (15,594) | (b) | 71,499 |
| Property Insurance | 14,334 | 0 | | 14,334 |
| Employee Pension & Benefits | 9,720 | 8,886 | (c) | 18,606 |
| Misc. General Exp. | 711 | 0 | | 711 |
| Rents | 3,225 | 2,775 | (d) | 6,000 |
| Total Admin & Gen. Exp. | \$ 163,916 | \$ (3,933) | | \$ 159,983 |
| Total Gas Operation & Maint Exp. | \$ 462,945 | \$ (305,443) | | \$ 200,260 |
| Depreciation | 4,432 | 0 | | 4,432 |
| Taxes Other Than Income Tax | 38,958 | (32,196) | (e) | 6,762 |
| Total Gas Operating Expenses | \$ 506,335 | \$ (337,639) | | \$ 211,454 |
| Net Operating Income | \$ 24,977 | \$ (39,255) | | \$ (57,036) |